



# Capital Improvement Plan 2016-2020 Generation Fund

*"To provide an attractive, growing community being served by a professional staff that offers reliable, quality municipal services."*

June 27, 2016

## **Table of Contents**

Introduction.....	3
Capital Improvement Fund.....	4
Deferred Maintenance Projects.....	4
Efficiency Projects.....	5
Quality of Life Projects.....	7
Main Street.....	7
Financing.....	9
City’s Financial Position.....	11
Projected Cash Flow.....	12
Additional Five-Year Capital Projects.....	14
Sanitary Sewer Fund.....	16
2016 Projects.....	16
Enhancement Projects.....	17
Financing.....	18
Water Fund.....	19
Current Financial Position.....	19
Recent Projects.....	19
Future Projects.....	20
Water Meters.....	22
Analysis of Future Rates.....	23
Additional Services.....	23
Anticipated Project Scheduling.....	24

## **Introduction**

Numerous immediate and future capital needs have been identified over the past several years which need to be prioritized and balanced in accordance to the projected resources of the City. The projects identified in this report are all meant to protect investments previously made, develop greater efficiencies for long term governance and to enhance the quality of life within the City of Sturgis. Upon completion of the capital projects outlined in this report the community will reach a generational moment. Aging infrastructure will have been restored and the community will have built a higher quality of life for existing residents. Moreover, the capacity of the community's infrastructure will have expanded to accommodate a growing population which will expand the economic base.

The City Council and staff have completed a detailed examination of the most pressing needs of the community and the forecasted revenue streams of the City. In doing so, it has prepared this detailed report which outlines several decision points and recommendations which seek to balance to the greatest degree possible the current and future needs of the community and the revenue sources which are available. In completing this analysis, three specific City funds were reviewed:

- The Capital Improvement Fund (funded with 42.5% of the City's 2% Sales Tax revenue)
- The Sanitary Sewer Fund (funded with monthly Sewer Utility Charges)
- The Water Fund (funded with monthly Water Utility Charges)

Each fund has specific funding sources and specific objectives. As such, the proposed projects and funding strategy for each fund is identified separately within this report.

## **The Capital Improvement Fund**

The first such fund is aptly named “The Capital Improvement Fund.” This fund receives the lion’s share of its revenue from 85% of the second penny sales tax (or more precisely 85% of 50% of the General 2% sales tax paid on purchases made within the City of Sturgis). In addition to this funding stream, additional revenue is deposited into this fund from Rally revenue sources. Specifically, revenue from the annual Harley Davidson Rally Point and certain lease revenue from sponsors who have historically occupied Harley-Davidson Way (2<sup>nd</sup> Street). This is the primary source of funding for improvements made to roads, bridges, parks, the Community Center, storm water and Municipal Buildings.

As recently as 2013, 50% the Capital Improvement Fund revenue has been used to repay the City’s 2008 General Obligation Bond. This bond was a restructuring of previous debt that was incurred with the construction of City Hall, the Library, the Community Center and the Fire/Ambulance Hall. This has in effect allowed for minimal maintenance of City facilities, roads and parks. Over time, the deferred maintenance has ultimately proven to be costlier than the money saved. Over the past three years the City has invested significant sums to make emergency repairs that could have been avoided had more proactive approaches been made. Two of these examples include:

- Community Center HVAC System, Boiler, Heating System, Pools Doors and Windows
  - Required due to an inoperative venting system that was faulty from the time of the Community Center’s construction
- Waste Water Lagoon Rip Rap
  - Required because the original construction was over budget by approximately \$100,000. The change order eliminated this needed element which ultimately eroded the lagoon bank. This ultimately had to be repaired and installed at an approximate cost of \$400,000

### **Deferred Maintenance Projects**

The City has sought to learn from these experiences and has identified several projects which largely should be completed within the next 18 months in order to reduce any potential future emergency repairs:

<b><u>Deferred Maintenance Projects</u></b>	<b><u>Budgeted Cost</u></b>
Roofs Library and Auditorium	\$ 200,000
Storm Water Murray, 1st Ave	\$ 500,000
Pool Pack	\$ 250,000
Otter Road City Share	\$ 300,000
Overlay Roads Ellen, 1st, Woodland	\$ 335,000

The roof repairs will be undertaken in the Summer of 2016 in order to reduce any damage to the existing structures.

The storm water projects in Murray Addition and the First Avenue neighborhood has been discussed during several public meetings. The budgeted improvements would allow for the installation of needed culverts across several intersections in both areas, the redefinition of some ditch drainage areas in the Murray Addition and the installation of a detention pond in the First Avenue area. These improvements should begin in the Spring of 2017.

The Pool Pack is the venting system that was designed to operate when the community center was built. This system has never been functional, leading to excessive humidity and corrosion. This issue led to the early demise of several mechanical systems and hardware within the Community Center. These systems and hardware have since been replaced, however in order to ensure that the new equipment will serve the community through a normal lifecycle, the Pool Pack must be replaced. This should be completed in 2017.

Otter Road was originally constructed within the County and as such was designed and constructed to County standards. As the area has now been annexed into the community and there has been continued growth within the area the substandard nature of this roadway has grown far more worrisome. As such, it is recommended that the roadway from Vanocker Canyon to Pine Wood Trail should be overlaid and reconstructed as needed. This would include curb, gutter and sidewalks as feasible. The preliminary estimate of this project is \$1,200,000. The recommendation would be for the City to work in partnership with SEDC to encourage a TIF development on a portion of the Blessed Emanuel Lutheran Church property. The public improvements from this TIF is preliminarily estimated to need an additional \$300,000 in City funds to complete this project. It is anticipated that this will likely require at least two years of efforts to put together this partnership and then construction could begin in the third year.

Ellen, 1<sup>st</sup> and Woodland have been identified as some of the most deteriorated roads in the community. As such, a reconstruction of the roadways will be required to be completed. It is anticipated that this would occur in the Spring of 2017.

### **Efficiency Projects**

The second grouping of projects is designed to complete three significant efficiency projects for the community:

<b><u>Efficiency Projects</u></b>	
City Hall Remodel and Safety Features	\$ 400,000
City Park Remaining Homes purchase	\$ 300,000
Parks 80' x 100' building	\$ 1,013,000
PW 120' x 100' building	\$ 1,520,000

First, the City Hall building is a tremendous remodel which provides an attractive anchor in the community's downtown. However, since the completion of the project, times in America have continued to evolve and life safety incidents have continued to become more prevalent. As such, it is prudent to review the floor plan of City Hall and make adjustments to enhance the safety of employees and visitors. While doing so it is recommended that some areas on both floors be reconfigured to provide larger flex space for existing and future staff growth. Lastly, it is recommended that a large conference room be created on the first floor to accommodate public and community meetings which currently are squeezed into an extremely small room. This should be combined with the library capital improvement enhancements which are currently being planned and are funded through private donations. The combination of both projects should provide an economy of scale and reduce the total project cost. Ideally, these enhancements would occur in the Summer of 2017.

Second, there are three homes in the area of the City Park. This used to be a part of a larger residential area which had been previously purchased by the City. Earlier this year, the City purchased one of these homes. The Parks Board recommends that the City purchase the remaining two. This will allow for a uniformed development. This should be completed within the next three years.

The Parks Department currently occupies the converted City Pool locker rooms. This facility is tremendously insufficient to store the Parks equipment and maintain vehicles and equipment. This then necessitates several pieces of equipment to be stored outside exposing them to the elements. This greatly increases the cost of annual maintenance and reduces the equipment's life expectancy. In addition, the facility is located in an area which is needed by the School District for future expansion. While a final location has not been determined, it is recommended that a location be selected in 2016 and that construction be completed in 2017. This will at first allow a temporary relocation facility for Public Works in 2018 when a new Public Works facility is being built. When the Public Works Building is finished in the Fall of 2018 the Public Works Department will be able to relocate to their new facility and then allow the Parks Department to relocate into its new facility and allow the School District to take possession of the current Parks facility in the first quarter of 2019.

As alluded to above, the next project is the construction of a new Public Works building. The Public Works campus is comprised of a mixture of dilapidated structures. In addition to the buildings' dilapidated state, there is likewise an inadequate storage area to maintain the Public Works' fleet. As such, several pieces of equipment are stored outside. The weathering continues to significantly reduce the dependability of the equipment. As such, it is recommended that a new 120' x 100' metal structure be built to replace the existing structures. This would complement the recently constructed salt shed and the existing sanitation shed and Public Works office. This should be completed in 2018 in order to facilitate the timeline aforementioned.

### **Quality of Life Projects**

The third grouping of projects is meant to enhance the quality of life in Sturgis:

<b><u>Quality of Life Projects</u></b>	<b><u>Budgeted Cost</u></b>
Downtown Iconic	\$ 400,000
9th Street Bridge	\$ 1,000,000

The first project is completion of a Downtown iconic landmark to complement the Harley-Davidson Rally Point. This was contemplated as part of the Future Sturgis, Comprehensive Plan and Downtown Strategy Task Force engagement processes. Though an exact project has not been identified, it has been recommended that the project serves to complement the existing Rally Point (restrooms, splash park, etc.) and provide entertainment for the community and an anchor draw for people to congregate in our Downtown core. It would be recommended that discussions on this project take place in 2016 with construction in 2017 or 2018. It is important to note that this would not be a part of the fulfillment of the Harley Davidson sponsorship contract.

The next project is the construction of a new 9<sup>th</sup> Street bridge. Currently, there are 4 crossings of Bear Butte Creek; Junction, 7<sup>th</sup>, 9<sup>th</sup> and 15<sup>th</sup>. The 9<sup>th</sup> Street Bridge is the most central and could allow for the greatest water flow in a flooding emergency. The current condition of the bridge is unacceptable and needs to be replaced. Preliminary conversations with engineers have suggested that a new bridge would likely require a budget of approximately \$1,000,000. This project would be designed by an outside firm in 2017 and likely constructed in 2018.

### **Main Street**

The last project to be funded largely through the Capital Improvement Fund is the Main Street reconstruction. With the recent bidding of the project, the final project budget can be identified:

<b>Main Street</b>	
\$ 4,052,460	Heavy Contract
\$ 25,000	Four Front Construction Administration
\$ 19,000	Street signs, etc.
\$ 25,000	DOT Inspections
\$ 75,000	Contingencies
<b>\$ 4,196,460</b>	<b>Total Anticipated Expenses</b>
\$ 1,000,000	DOT SIB Loan (repaid from future STIP)
\$ 850,000	STIP Balance
\$ 835,000	Water Fund
\$ 1,511,460	Cap Imp Funding (delineated below)
<b>\$ 4,196,460</b>	<b>Total Existing Funding</b>
\$ 1,235,016	Saved in Five Year Plan
\$ 276,444	Portion of Proposed Loan

As identified, the total anticipated expenses to complete the Main Street Project is \$4,196,460. This project includes several funding streams. The first is a portion of the City's STIP (State Transportation Improvement Plan) balance. Each year, the City is granted a portion of funds from the State who in turn receives funding from the Federal Highway Bill (Federal Gas Tax Revenue). Though this annual amount varies, it averages approximately \$160,000-180,000 per year. This amount ultimately is determined by Congress each year. As shown, the City currently has an \$850,000 balance as of March 2016 in its STIP Fund with the State of South Dakota DOT. In addition, the City has applied for and received a 0% loan from the State for \$1,000,000. This loan will be repaid through future STIP disbursements. This is anticipated to be repaid by 2022. From that time forward, the City is planning on taking part of a new program approved last year. This program authorizes municipalities to trade in its annual STIP appropriations to the State Department of Transportation. In exchange the municipality would receive 90% of the value in State funds. Though the municipality would pay a 10% premium, the State funds are available for any road project (maintenance, equipment, etc.). These funds also are free of Federal entanglements which drastically increase the cost of a project (for example, since Federal funds are partly funding the Main Street project, the design standards for the project have to meet Federal standards in lighting and other highly costly items). Therefore, in 2023 the City can anticipate additional revenue in its Capital Improvement Fund for approximately \$162,000 from the STIP disbursements.

The second funding source for the Main Street Project is \$835,000 from the Water Fund. The project includes replacing the water main running along Main Street. The Water Fund budget has included savings from several years to fund this portion of the project.



The third funding stream is from the City's Capital Improvement Fund. Through the 2020 Five Year Project Schedule, \$1,235,016 has been set aside for this project. The remaining \$276,444 is proposed to be funded through the proposed Capital Improvement Loan package.

### **Financing of the Capital Improvement Fund Projects**

The projects identified have a combined total anticipated budget of \$6,494,444. The anticipated timeframe for the completion of all of these projects is approximately three years. It is recommended that the financing for these projects would have as limited time as possible, in order to ensure that future Councils will have the ability to complete capital projects in the future which are as yet unforeseen. However, this desire must be balanced with the ability to ensure that the annual loan payments would continue to leave a significant amount of funds available in the Capital Improvement Fund to allow additional maintenance projects (such as roads, parks and community center enhancements) to be completed each year. Lastly, the Council has weighed the additional costs that are associated with different financing options. For example, a typical bond financing requires at least 1.5% in principal fees for legal, underwriting and other services. In addition, there is a required annual payment deposit. This then requires the principal to in effect be 1/30<sup>th</sup> larger than would otherwise be needed. In order to defray these additional costs, the proposed financing would be a twenty-year amortization term with no prepayment penalties from a traditional financial institution. This has been a strategy that has been discussed with the City's financial advisor. If this is the proposed course, the Advisor will assist in achieving as advantageous terms as possible.

As previously explained, the proposed twenty-year repayment term would be completed using traditional bank financing. This will allow for a reduced cost of issuance and no need for a bond reserve as compared to a bond issuance and will allow the City to take advantage of historically low interest rates. Lastly, traditional financing would allow the City to draw the funds as needed. This will reduce the monthly payments since the interest will only accrue on the funds drawn. This savings is not included in any of the figures within this report since the exact timing of the draws are not known. Therefore, the most conservative assumption has been made, that half of the funds would be drawn on July 1, 2016 and half would be drawn on July 1, 2017.

Lastly, given the historically low rates, it would be advantageous for the City to include the outstanding balance of the existing 2008 General Obligation Bonds. Therefore, the total proposed financing package includes the refinancing of the existing Capital Improvement Fund General Obligation Debt along with the projects identified in this report.

<b><u>Refinance Capital Improvement Debt</u></b>	
March 15, 2016 Principal	\$ 2,820,000
Wells CD Debt Service Balance	\$ 625,000

July 1, 2016 Funds Needed	\$ 2,195,000
Identified Capital Improvement Projects	\$ 6,494,444
Total Financing Needed on July 1, 2016	\$ 8,689,444
Annual Payments 20 year 3.5% starting in July 1, 2016	\$ 604,743

State statute limits the amount of debt a municipality can maintain. This is a function of the total assessed valuation of the community. As such, an additional consideration should be made to ensure that in a case of an emergency or an additional economic development project requiring a TIF, the City should ensure that there would still be sufficient availability of future debt.

A conservative assumption would be that half of the total new debt would be used in 2016 and the remaining half used in 2017. Using these assumptions, we can calculate the impact of the principal and interest repayments for this new debt issuance on the City's debt limitation. This can be further refined by combining the annual repayment of the preexisting TIF loan for TIF 12 which exceed \$100,000 per year and the further annual growth in assessed valuation which has historically increased debt availability by more than \$300,000 per year. With this information, the following calculations have been completed. They indicate that the City can safely assume that there will continue to be a significant available debt issuance capacity that will continue to grow annually after the issuance of this proposed debt.

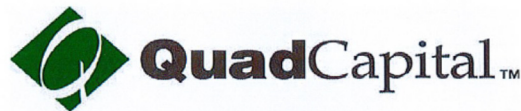
<b><u>Constitutional Debt Limitations</u></b>	
Current Debt Limit	\$ 10,324,606
Add back outstanding Cap Imp Bonds & Int. which will be refinanced	\$ 3,682,327
Add TIF #9 which will be paid off in the 2 <sup>nd</sup> Quarter of 2016	\$ 95,855
Less New Principal & Interest for 2016 projects (50% of total issuance)	\$ 6,047,433
Add debt Principal and Interest repaid in 2016 on new loan	\$ 302,372
Remaining 2016 Availability Dec. 31, 2016	\$ 8,357,727
Add debt Principal & Interest repaid in 2017 on new loan	\$ 604,744
Add 2017 additional debt capacity from assessment growth	\$ 300,000
Add 2017 TIF 12 repayments	\$ 46,620
Less Principal & Interest for 2017 projects (50% of total issuance)	\$ 6,047,433
Remaining 2017 Availability Dec. 31, 2017	\$ 3,261,658
Add debt Principal & Interest repaid in 2018 on new loan	\$ 604,744
Add 2018 additional debt capacity from assessment growth	\$ 300,000
Add 2017 TIF 12 repayments	\$ 126,315
Remaining 2018 Availability Dec. 31, 2018	\$ 4,292,717

## City's Financial Position Compared to 2008

The most recent issuance of a substantial capital improvement debt was in 2008. This \$6,500,000 bond was used to refinance previous debt incurred from the construction of the Community Center and Fire/Ambulance Hall and the reconstruction of the City Hall /Library complex. Lastly, the revenue was used for several capital improvements needed at that time, including the paving of several of the City's streets. Given the near identical amount of debt issued in 2008 to that of the new debt that is now currently proposed, it is important for the Community to know of the significant improvements to the City's financial situation that has occurred in the last eight years:

	<u>Dec. 31, 2007</u>	<u>Dec. 31, 2015</u>	<u>Change</u>
Post TIF Property Valuation	\$291,640,364	\$374,944,919	up 29%
General Fund Cash and Investment Balance	\$ 529,514	\$ 2,387,230	up 351%
General 2% Sales Tax Collections	\$ 2,529,626	\$ 3,631,082	up 44%
S&P Equivalent Bond Rating	BBB+	AA-	up 4 steps
*Cap Imp Post Debt Payment Funds	\$ 640,892	\$ 901,793	up 41%

\*Sales tax rev in Cap Imp Fund in 2009 less 2008 debt payment, projected sales tax rev in Cap Imp Fund in 2017 less new 2016 debt payment



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### Rating Agency Credit Scale

Moody's	S&P	Fitch	NAIC*	
Aaa	AAA	AAA	1	Investment Grade
Aa1	AA+	AA+	1	
Aa2	AA	AA	1	
Aa3	AA-	AA-	1	
A1	A+	A+	1	
A2	A	A	1	
A3	A-	A-	1	
Baa1	BBB+	BBB+	2	
Baa2	BBB	BBB	2	
Baa3	BBB-	BBB-	2	Non-Investment Grade
Ba1	BB+	BB+	3	
Ba2	BB	BB	3	
Ba3	BB-	BB-	3	
B1	B+	B+	3	
B2	B	B	3	
B3	B-	B-	3	

\* National Association of Insurance Commissioners

## **Projected Cash Flow**

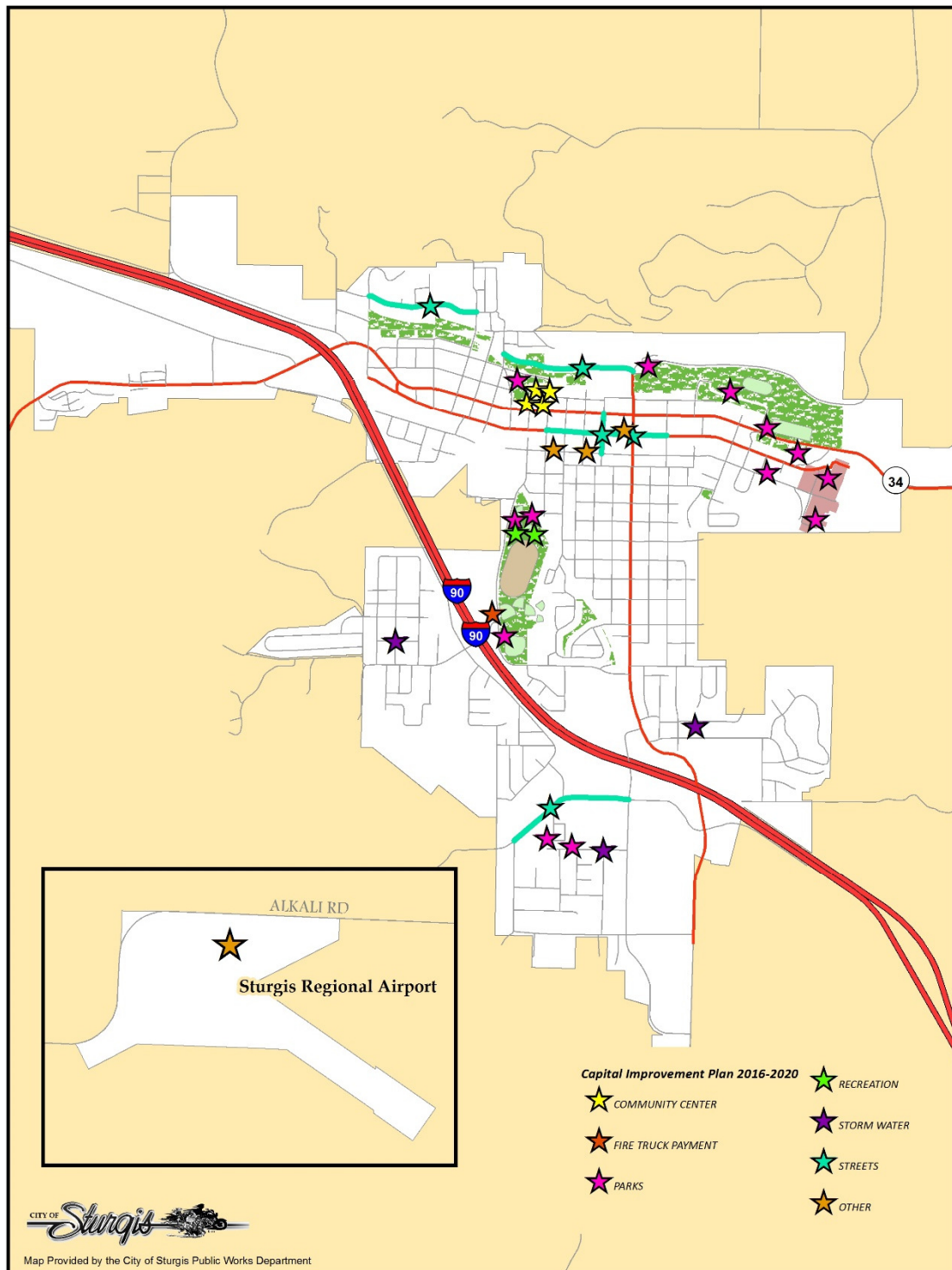
The proposed action would still allow for annual projects beyond those identified thus far in this report. In fact, beginning in 2017, the City would be able to complete a larger value of projects each year than has ever been budgeted. At no time, would the annual budgeted projects be less than \$700,000. The refinancing of the existing debt into the proposed package will allow for annual debt payments to be reduced compared to the annual debt payments which have been paid since the 2008 issuance. The projected 20-year cash projections presented below assume a modest sales tax annual revenue growth of 3% each year and other revenue streams remaining constant. The projected cash flow is below:

	2016	2017	2018	2019	2020	2021	2022
Starting Cash	\$615,870	\$46,825	\$82,479	\$199,600	\$438,384	\$772,769	\$1,071,139
Saved from previous years for projects	(\$562,300)						
Annual Projects	(\$757,499)	(\$848,632)	(\$872,361)	(\$754,750)	(\$707,098)	(\$792,500)	(\$900,000)
Est. Cap Imp Sales Tax Revenue	\$1,376,617	\$1,506,536	\$1,551,732	\$1,598,284	\$1,646,233	\$1,695,620	\$1,746,488
*Additional Revenue	\$205,000						
HD, 2nd Street Lease Revenue	\$230,000	\$230,000	\$230,000	\$230,000	\$230,000	\$230,000	\$230,000
HD Rally Point Great Sturgis Grant	\$25,000	\$25,000					
HD Rally Point Loan Payments	(\$230,007)	(\$230,007)	(\$230,007)	(\$230,007)	(\$230,007)	(\$230,007)	(\$230,007)
Existing GO Bond Payment	(\$553,485)						
New Loan Payments	(\$302,372)	(\$604,743)	(\$604,743)	(\$604,743)	(\$604,743)	(\$604,743)	(\$604,743)
End of Year Total	\$46,825	\$82,479	\$199,600	\$438,384	\$772,769	\$1,071,139	\$1,312,877

	2023	2024	2025	2026	2027	2028	2029
Starting Cash	\$1,312,877	\$1,669,010	\$1,679,109	\$1,744,794	\$1,767,732	\$2,079,647	\$2,252,302
Annual Projects	(\$1,000,000)	(\$1,400,000)	(\$1,400,000)	(\$1,500,000)	(\$1,500,000)	(\$1,700,000)	(\$1,700,000)
Est. Cap Imp Sales Tax Revenue	\$1,798,883	\$1,852,849	\$1,908,435	\$1,965,688	\$2,024,658	\$2,085,398	\$2,147,960
HD, 2nd Street Lease Revenue	\$230,000	\$230,000	\$230,000	\$230,000	\$230,000	\$230,000	\$230,000
STIP 90% for Streets	\$162,000	\$162,000	\$162,000	\$162,000	\$162,000	\$162,000	\$162,000
HD Rally Point Loan Payments	(\$230,007)	(\$230,007)	(\$230,007)	(\$230,007)			
New Loan Payments	(\$604,743)	(\$604,743)	(\$604,743)	(\$604,743)	(\$604,743)	(\$604,743)	(\$604,743)
End of Year Total	\$1,669,010	\$1,679,109	\$1,744,794	\$1,767,732	\$2,079,647	\$2,252,302	\$2,487,519

	2030	2031	2032	2033	2034	2035	2036
Starting Cash	\$2,487,519	\$2,173,659	\$1,913,765	\$1,709,457	\$1,562,402	\$1,374,317	\$1,246,972
Annual Projects	(\$1,900,000)	(\$1,900,000)	(\$1,900,000)	(\$1,900,000)	(\$2,000,000)	(\$2,000,000)	(\$2,000,000)
Est. Cap Imp Sales Tax Revenue	\$1,798,883	\$1,852,849	\$1,908,435	\$1,965,688	\$2,024,658	\$2,085,398	\$2,147,960
HD, 2nd Street Lease Revenue	\$230,000	\$230,000	\$230,000	\$230,000	\$230,000	\$230,000	\$230,000
STIP 90% for Streets	\$162,000	\$162,000	\$162,000	\$162,000	\$162,000	\$162,000	\$162,000
New Loan Payments	(\$604,743)	(\$604,743)	(\$604,743)	(\$604,743)	(\$604,743)	(\$604,743)	(\$302,372)
End of Year Total	\$2,173,659	\$1,913,765	\$1,709,457	\$1,562,402	\$1,374,317	\$1,246,972	\$1,484,560

As illustrated on the following map, the projects funded through this infrastructure plan are spread throughout the entire community and effect all municipal services.



## **Additional Five Year Capital Projects**

Lastly, it is proposed that the Council adopt the following five-year Capital Improvement Fund schedule. These projects are all in addition to those identified as being funded through the proposed financing package. Unlike the previously described projects which will be funded largely through the proposed new debt, the projects outlined below would be funded through the remaining Capital Improvement Fund revenue. These projects may be adjusted (moving forward or back in a calendar year) based on actual sales tax receipts (this report projects an average annual growth of 3%). The projects included seek to enhance the quality of life and protect the investments that have already been made in our community.

### **Five Year Capital Improvement Scheduling**

	Saved	2016	2017	2018	2019	2020
<b><u>Storm Water</u></b>						
Projects-Anna Street	\$75,000	\$345,000				
<b><u>Parks</u></b>						
Old Stone Shelter Rebuild		\$100,000				
Girls Softball Complex Sidewalk	\$17,500					
Baseball Parking lot	\$5,500					\$75,500
Hills and Plains landscape enhancements					\$150,000	
Clark House		\$135,000				
Girls' Softball Sidewalk & Driveway	\$25,000				\$ 25,000	
Willow Park playgrounds	\$15,000					
Rose Street Park Playground						
Lion's Club Park, Storm Drain, Playgrounds					\$100,000	\$300,000
Soccer Field Concessions/RR				\$100,000		
Tennis Court resurfacing & Practice Walls					\$25,000	
ADA Compliance at Sports Facilities	\$25,000				\$50,000	\$50,000
Expansion of trail/path system		\$62,500			\$75,000	
Cremain section				\$30,388		
<b><u>Streets</u></b>						
Resurface			\$125,000	\$125,000	\$125,000	\$150,000
Main Street		\$55,000	\$637,016	\$543,000		
Striping		\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Street lighting& LED			\$6,000	\$6,000	\$6,000	\$6,000
Street Barrier Replacement					\$15,000	
City Owned Parking lot Maintenance			\$10,000	\$10,000	\$10,000	\$10,000
<b><u>Community Center</u></b>						
Pool Flooring	\$280,000					
Gymnasium Floor Resurfacing	\$100,000					
Treadmills (2)				\$12,943		\$13,732

Elliptical		\$5,000		\$2,701		\$2,866
Bikes (2)				\$8,329		
Weight Equipment		\$10,000			\$ 20,000	\$10,000
<b><u>Recreation</u></b>						
Softball Field Irrigation and Warning Track	\$9,300	\$9,579	\$9,866			
Softball Field Warning Track - Diamond Dry		\$1,620				
<b><u>Other</u></b>						
Airport Projects		\$4,800	\$10,750	\$5,000	\$3,750	\$10,000
GIS Flights and Web Hosting		\$14,000	\$14,000	\$14,000	\$14,000	\$14,000
<b><u>Fire Truck Payment</u></b>			\$21,000		\$21,000	
Total Annual Projects	\$562,300	\$757,499	\$848,632	\$872,361	\$654,750	\$657,098

## **The Sanitary Sewer Fund**

The second fund is the Sanitary Sewer Fund. This fund's sole income stream is the utility rate payers. These funds are collected and used to fund the daily operations and past debt of the fund.

### **Projects**

There are two phases of upgrades which are presented in this plan. Each phase would be funded through its own separate financing plan. The first is presented below:

<b><u>2016 Loan Projects</u></b>	<b><u>Cost</u></b>	<b><u>Ammort.</u></b>	<b><u>Int.</u></b>	<b><u>Annual Cost</u></b>
Rake Screen	\$ 850,000	20 years	4.00%	\$ 61,810
High School Main Line	\$ 200,000	20 years	4.00%	\$ 14,544
Expansion Options				
Option 3 (High School, Full Throttle, Kick Start, Valley Imple)	\$ 2,000,000	20 years	4.00%	\$ 145,435
Option 2	\$ 3,500,000	20 years	4.00%	\$ 254,512
Option 1	\$ 5,000,000	20 years	4.00%	\$ 363,588

The first identified project will need to be completed in 2017 and consists of installing a new automated rake screen. The screen filters all of the wastewater before it enters the lagoons. This screen is currently cleaned manually daily. In addition to being one of the worst tasks within the City, the manual process requires extensive man hours and requires mandatory overtime on the weekends. By automating this task, it would be completed more thoroughly without the need for overtime.

The second project would provide a new main line to the High School. This will allow the high school's sewage to enter the treatment into the first lagoon as it truly should. Currently, the sewage is transferred directly from the High School property into the second lagoon. This short-circuits the treatment process and leads to higher pH and Ammonia levels upon completion of the treatment. This is an issue that must be resolved in the very near future.

The last project is designed to allow for expansion of our sewer system to the east. The Council has thoroughly reviewed areas of potential expansion. Through a previously approved development agreement, the City is required to extend sewer service east into the newly annexed areas surrounding the Kick Start and High School. The annexation of these areas has already significantly increased sales and property taxes as well as vendor licensing fees. Beyond these properties, the Council has recommended expanding service capability to the previous Full Throttle site and the Valley Implement dealer. There are several potential redevelopment opportunities for the Full Throttle site, most of which provide year round enhancements to the community. As such, the Council believes it is wise to plan for utility expansion in this area so



that its future use is truly at the highest and best use possible which will enhance the region's economy. All three options include servicing these areas, with the first two options including expansion beyond to include additional campgrounds. Given the limited near term development potential of these campgrounds, these options were not recommended and the plan recommends proceeding with the smaller Option 3. Though this option allows for potential service to the previous Full Throttle site and Valley Implement location, it will only allow for the option should that be desired in the future (this however is not guaranteed and would not be provided unless and until there is an annexation. The City is not planning to proceed with a forcible annexation).

The anticipated cost of these three projects is \$3,050,000. This would require a traditional loan amortized over a 20-year period. This would then result in new annual costs of \$221,789.

All of the remaining projects are recommended to be paid through a State Revolving Loan Fund Loan. These loans are usually offered at very loan interest rates and are fully amortized over a 20-year period. In addition to providing a loan, often the state will award grants to help reduce the total debt required to be taken out. The amount of the grant is determined based on the size of the project, the monthly utility rate paid by customers and the level of competition from other cities making grant applications. As it impossible to determine whether or not the City would receive a grant, this proposal anticipates that no grant would be awarded.

#### **Enhancements**

Lagoon Enhancements for Discharge Permit	\$	5,000,000	20 years	4.00%	\$	363,588
Slip Lining and Man Holes	\$	1,500,000	20 years	4.00%	\$	109,070

The first project is an allowance for a required enhancement at the Lagoon. The State DENR (Department of Environment and Natural Resources) continues to increase the treatment standards for treatment. This has been at the behest of the Federal EPA in an effort to clean and enhance the discharges that originate in the Missouri and Mississippi watershed and eventually flow to the Gulf of Mexico. The City's current discharge permit application comments require additional treatment to reduce ammonia and nitrogen levels. The benefit of this required enhancement is that the City would in effect have a greatly enhanced capacity. The exact method of this higher level of treatment has not been settled, however the anticipated cost of the majority of the options that have been prepared by our Engineering Consultant is \$5,000,000. This therefore should be the budgeted expenditure for this project. In the upcoming months, the actual method will need to be chosen after further review by our Engineers.

The second project seeks to rectify an ongoing issue across a significant portion of our community. Much of the oldest portions of our community are serviced with clay sewer pipes. These pipes were installed with the original sewer system. As such, the age of several of these lines greatly exceeds their expected life span. The result is that the lines begin to deteriorate and crack. These cracks allow subsurface water to infiltrate the system. There have been indications

that significant portions of the water that is treated in our lagoon system is actually groundwater. In addition, the compromised lines allow roots to infiltrate the lines. These require continual maintenance by staff to jet the lines. Lastly, the roots can be a significant cause for blockage which would be a tremendous burden on the residents and would likely become a significant liability for the City. The proposed project would slip line the old mains and line the old man holes. This will reduce the chances of infiltration and blockages.

The anticipated cost of these two projects is \$6,500,000. This would require a State Revolving Loan amortized over a 20-year period. Though the City will be seeking principal forgiveness (a grant) it is assumed that a conservative interest rate and no principal forgiveness would result in new annual costs of \$472,658.

### **Financing**

The current utility rates include sufficient revenue to provide for the financing of a significant portion of the improvements.

#### **2017 Waste Water Fund Revenue Available for New Debt Service**

New Loan Line Item	\$	210,888
Capital Reserves	\$	209,425
<hr/>		
2016 Revenue available for new Debt Service	\$	420,313

However, the complete retrofitting of the wastewater system will require an increase in monthly sewer rates. This will be tempered however in future years with a growing number of customers.

2017 Revenue available for Debt Service	\$	420,313
Total Annual Cost of Upgrades	\$	694,447
Remaining funds required	\$	(274,134)
3500 Customer Units Max Monthly Price Increase Needed	\$	6.53

Given anticipated growth rates of at least 1% per year, the growth in revenue should nearly cover the annually anticipated variable cost increases (personnel, utilities, supplies). This will be further enhanced when the existing Waste Water Bond is repaid in 2020. Starting in 2021, there will be an annual savings of approximately \$160,000. As presented, the maximum monthly increase could be less if the loan were amortized over a longer term, funded at a lower interest rate or if a grant were received to help pay for the costs. The City reviewed the impact of a potential rate increase and compared the total cost of living in Sturgis compared to other Hills communities (incl. taxes and utility rates). Even with a potential increase, the total cost of living in Sturgis as compared to neighboring communities remains quite competitive.

## **The Water Fund**

The last fund covered in this report is the Water Fund. Revenue in this fund originates from the City's Water Utility Charges. The fund receives all revenue from the City's Water utility billing. In return, the funds are used to cover existing debt, operating costs (water operators and water utility billing staff, insurance, electrical costs of the wells, insurances and repairs) and capital costs.

### **Current Financial Standing**

The Water Fund ended 2015 in a very strong financial position:

Cash and Deposits	\$ 844,157
Other Investments	\$1,503,000
Main Street Mainline Replacement Savings	(\$ 440,000)
Development Agreements Obligations	(\$ 200,000)
<u>Customer Deposits</u>	<u>(\$ 180,000)</u>
Dec. 31, 2015 Fund Equity	\$1,527,157

In the 2016 Budget, there are five significant sources of water service charges:

<u>Charge</u>	<u>B2016 Total Revenue</u>
Water Base & Usage (1,000 gals.)	\$1,192,258
Surcharge #1 (Murray Add)	\$ 69,185
Surcharge 2 (RD Projects)	\$ 163,553
Lazelle Surcharge	\$ 165,337
Water Availability Fee	\$ 35,700
<u>All Other</u>	<u>\$ 131,200</u>
Total	\$1,758,815

From this revenue the following expenses are paid:

<u>Category</u>	<u>B2016 Total Expense</u>
Operating (Personnel, Utilities, Ins. Supplies, Repairs)	\$ 965,929
Capital Projects	\$ 319,757
Meter and Radio Remote Replacements	\$ 111,000
<u>Existing Debt</u>	<u>\$ 362,129</u>
Total	\$1,758,815

### **Recent Capital Projects Completed and Prioritized Future Capital Projects**

Over the past five years, the Water Department has completed numerous significant capital projects which have greatly enhanced the reliability and quality of our water services. These include the construction of one new well and rehabilitation of another, installation of a new water

main along Lazelle and installation of several blocks of new main lines in residential neighborhoods.

With the successful completion of these significant improvements and the pending completion of the Main Street Mainline replacement the community's wells and mains are in excellent condition. In order to continue the improvements in our water system we should continue to make annual investments in our Water mains. The Municipal Utility Board has recommended an annual investment to replace one to two blocks of the oldest lines in our community, or to install a new line in locations where there are substantial lengths of privately owned service lines. The benefit of replacing the oldest lines is to reduce the likelihood of a mainline leak. The benefit of installing a new line in areas of long service lines is to reduce the cost of individual property owners when a service line needs to be replaced (The private property owner is financially responsible for each service line from their house to the water main. In several of the oldest portions of our community, the previous private water utilities reduced their corporate costs by limiting the number of water mains and thereby increasing the length of private service lines to connect the house to the water main).

### **Future Projects**

With these goals in mind, the following list of projects has been identified:

<b>Streets without Water Mains</b>			
Shepard Street	Junction to Howard	1	Blocks
Dakota	Pine to Cedar	2	Blocks
Park Ave	9th to 10th St.	1	Blocks
7th	Main to Williams	3	Blocks
9th	Main to Lazelle	1	Blocks
2nd	Main to Lazelle	1	Blocks
4th	Main to Lazelle	1	Blocks
	Fleet St	1	Blocks
<b>TOTAL BLOCKS NO MAINS</b>		<b>11</b>	

<b>Streets with 4" Cast Iron Water Mains</b>			
William St	10th- 8th	1000	Feet
Park Ave	9th-8th	400	Feet
8th	William-Park	400	Feet
9th	Park-Lazelle	400	Feet
8th	Lazelle-Main	390	Feet
Sherman	Main-9th	230	Feet
9th	Sherman-Alley	550	Feet
Alley near Hill St	9th-10th	320	Feet

5th	Lazelle-Main	380	Feet
Willard	4th-3rd	210	Feet
Farley	4th-3rd	370	Feet
4th	Farley-Church	390	Feet
3rd	Douglas-Edmunds	900	Feet
2nd	Douglas-Boulevard	1450	Feet
Edmunds	2nd-Pine St	750	Feet
Boulevard	2nd-Pine St	700	Feet
Sherman	Junction-Channel	970	Feet
Sly St.	Lazelle-Dudley	300	Feet
Davenport	Howard-Deadwood	2100	Feet
Fulton	Douglas-Edmunds	740	Feet
Nellie	Lazelle-Weber Dr	2180	Feet
Blanch	Main-Sherman	350	Feet
Main	Blanche-Flora	650	Feet
Weber Dr	Nellie-Nellie	1390	Feet
Tilford	Fulton-Baldwin	350	Feet
Baldwin	Tilford-Deadwood	350	Feet
S. Fulton	Glover-Celia	780	Feet
Deadwood	Spruce-Pine St	370	Feet
Deadwood	Junction-Davenport	300	Feet
Vanocker Dr	Ponderosa-1st Ave	900	Feet
Ponderose Dr	Pine Tree St-Greenwood Trail	950	Feet
Pine Tree St	Evergreen-Ponderosa Dr	430	Feet
Greenwood Trail	West End-North End	1700	Feet
<b>TOTAL FEET CAST IRON</b>		<b>23650</b>	

This comprehensive list will take years to complete, however it contains all of the long term projects anticipated to be needed to completed the installation or rehabilitation of the City's mainlines. It is important to note, that though these projects have been identified, at this time there is no indication that there are failures from the long service lines where there are no mainlines present or from the old cast iron lines. Therefore, this list is a proactive list meant to help enhance the long-term viability of our water delivery system.

The Water Board has completed two projects to date that included installing a new water main to reduce the length of service lines. The average cost of each of these projects was \$276,000. The Municipal Utility Board has recommended that this strategy continue through the foreseeable future. They further recommended that the Council complete one such project annually and pay for the project through the current revenues received each year.

## **Water Meters**

If we anticipate a growth rate of 1%, the City must anticipate an annual expense of approximately \$10,500 for new water meters and accompanying radio remotes (35 new accounts X (\$150 new meter + \$150 radio remote)). The added benefit of the radio remote is that it greatly reduces the time required to complete the monthly reading. Once the entire community is transferred to radio remote reading, what currently requires 80 hours per month to complete will likely be able to be completed in approximately 16 hours per month. The 2016 Budget also included funding for 335 replacement meters and corresponding radio remotes. This translates into replacing approximately 30 existing meters each month. This was done because the life expectancy of the majority of our community's meters has begun to be met. The first 50 meters changed in 2016 have been tested to see if the old meters had indeed begun to fail. After thoroughly testing each meter, it was discovered that the failure rate was approximately 4%, which is not materially different to new meters (failure meaning that the meter underreported the amount of water used). Given the continued functionality of the City's oldest meters, it is recommended, that the meter replacement program be postponed and reexamined annually. Each year the 50 oldest meters will be replaced and tested. Once a failure rate exceeds 15%, the City should begin replacing the meters throughout the community at a rate of 335 per year.

In the years when the meters beyond 50 are not needed to be replaced, it is recommended that the radio remotes continue to be installed at a rate of 335 per year. The historical average of water meter replacement for malfunctioning meters (not including a meter replacement program) is approximately 70 per year. If this recommendation is agreed upon, there will remain 215 meters annual per year which are currently budgeted for that will not be needed in the immediate future. At a cost of \$150 per meter, that is a savings of \$32,250 per year.

The 2016 Budget includes a total of \$319,756 in capital projects and \$111,000 in meter and radio remote upgrades and installations. For the past three budget years, the Water Fund has been required to save a significant sum to contribute to its share of the Main Street Project. With the conclusion of 2016, the total funds needed for this project will have been saved. With the analysis provided above we can anticipate the following annual capital costs:

<u>Project</u>	<u>Total Cost</u>
New Water Main Installation	\$276,000
35 New Accounts (Radios and Meters)	\$ 10,500
120 Meter replacements	\$ 18,000
335 Radio Remotes	\$ 50,250
Total	\$354,750

Given the 2016 budgeted expenditures for Capital Improvements, Capital Appreciation (savings) and Meter and Radio Remotes totaling \$430,756, there is an anticipated surplus of \$76,006 per

year. This however is contingent upon the actual cost of each mainline project and the continued superb performance of the existing water meters.

### **Analysis of Future Rates**

With the flourishing of new developments in Sturgis, we can anticipate additional revenue growth each year without any new charges to our rate payers. In particular, in 2014 we had a total of 3,531 units (with a unit being each customer with some customers with larger sizes accounting for multiple units). In 2015, the City experienced more than 40 new units. This represents a growth rate of more than 1%. Given the continued new development in the Dolan Creek Estates, Canyon View and various commercial developments, it is a fairly safe assumption to budget for a continued 1% growth rate. This growth rate would be anticipated to lead to annual increases in revenue for the Water Base and Usage fees along with the surcharge fees totaling \$15,903.

Despite the anticipated growth in several of these revenue streams, the anticipated inflationary increase in expenses should be minimized since currently 20% of all expenses are existing debt. This total will not increase unless new debt is issued. As such, the Operating costs remain the sole expense which is anticipated to need to be accounted for in annual inflationary increases. A 3% annual inflationary increase would lead to an additional anticipated cost of \$28,978. As previously explained, this is largely offset by the income growth arising from new development. This leaves an anticipated annual gap of \$13,075. Given a total fund budget of \$1,758,815 this is a de minimus figure. Therefore, it is anticipated that the current water rates can continue to be stable with minor inflationary annual changes for some time until one of the following items occurs:

1. Inflationary operational costs increases erode the annual fund surplus
2. The water meter replacement program begins to detect failures requiring more than 50 new meters per year to be installed
3. The system develops significant well, tank or mainline failures that exceed the Fund's reserves (in excess of \$1,500,000)

### **Additional Services**

With the Water Fund remaining in a very strong financial position and several capital enhancements already budgeted to be completed in the years to come, it is recommended that a new service be provided with the anticipated annual surplus of \$76,006. For several years, the Council has heard numerous requests from neighborhoods throughout the community to make storm water improvements. It is important to note that all new developments are required to meet flood requirements for a 100-year flood event. Therefore, the current inadequacies should not be exacerbated as the community grows. However, much of our existing community was built with little to no storm water improvements, therefore improvements to the existing neighborhoods must be made. Over the past three years the City has begun to make the first

improvements in its history. This began with an approximate three block area around Middle Street north of Lazelle. This project was funded through an investment made by the Capital Improvement Fund. This year, a significant storm water channel will be constructed north of Anna Street to Harmon Street. This project is being funded through the Scott Peterson Motors TIF and the Capital Improvement Fund. The aforementioned proposed Capital Improvement Fund debt projects include \$500,000 for additional storm water projects in the Murray Addition and First Avenue neighborhoods.

Though some projects have begun and a few additional projects have been identified, there remains a significant need to provide for an ongoing annual funding stream for both manpower and projects to enhance the storm water infrastructure of our community. It is recommended that the anticipated \$76,000 in surplus Water Fund revenue be used to begin meeting this demand. It would be recommended the Council choose one of two options.

First, approximately \$40,000 could be used to fund a new full-time operator position (wages and benefits) in the Sanitary Sewer Division. This would fund 2,080 hours each year for the cleaning of storm drains, reshaping of storm drainage ways, repairs of culverts and other storm water facilities and MS4 compliance (state mandated storm water improvements which are completed very minimally now). The remaining \$30,000 could be used to help fund minor storm water projects (minor culverts, etc.).

The second option would be to use the \$76,000 per year to hire an independent contractor to complete specific storm water projects each year (maintenance of waterways, reshaping ditches, cleaning culverts).

Whichever option is chosen, they would not fix all of the community's storm water needs. However, it would begin to systematically address these issues for the first time, which would be a substantial improvement. It is worth noting that this would be accomplished without raising existing fees or without instituting a new fee (which is what other communities in the Black Hills have been required to put into place). If this pilot project is successful, in future years, the Council could decide if it should be enhanced either through reprioritizing the projects funded through the Capital Improvement Fund or through utility fees.



## **Anticipated Project Scheduling**

Roofs Library and Auditorium	2016
Comm Center Pool Rehabilitation	2016
Comm Center Gym Floor Resurfacing and Lobby Painting	2016
Anna Street Drainage Improvements	2016
Willow Park Playground Equipment	2016
Main Street Reconstruction	2016, 2017
Waste Water Automatic Rake and Screen	2016, 2017
Main Street Reconstruction	2016, 2017
Softball Field Irrigation	2016, 2017, 2018
Comm Center Equipment	2016, 2018, 2019, 2020
Storm Water Enhancements (Murray and 1 <sup>st</sup> Avenue)	2017
Community Center Pool Pack Venting System	2017
City Hall Remodel	2017
Parks Building	2017
Waste Water Extensions	2017
Waste Water High School Main	2017
Old Stone Shelter Reconstruction	2017
Girls Softball Sidewalks	2017, 2018
Waste Water Main Line slip lining	2017, 2018
Waste Water Man Hole rehabilitation	2017, 2018
Waste Water Lagoon Enhancements	2017, 2018
Sport Facilities ADA Enhancements	2017, 2019, 2020
Roadway Resurfacing	2017, 2018, 2019, 2020
Soccer Concessions, Restrooms	2018
Otter Road Reconstruction	2018
Public Works Building	2018
Downtown Iconic Feature/Enhancements	2018
9 <sup>th</sup> Street Bridge Replacement	2018
Cemetery Cremain Section Enhancements	2018
Tennis Courts Resurfacing	2019
Lions Club Park Reconstruction	2019, 2020
City Park House Purchases	2019

## **Comparison of Black Hills Communities' Cost of Living**

	City Tax	School Tax	County Tax	Other Tax	Sewer	Water	Garbage	Annual Total
Belle Fourche	947	1,376	653	19	245	207	269	3,717
Spearfish	431	2,015	645	11	425	181	210	3,918
Sturgis (proposed)	1,089	1,322	632	-	389	358	150	3,940
Deadwood	750	1,885	645	129	276	246	162	4,093
Lead	1,378	1,885	645	243	276	300	162	4,889
Hot Springs	1,067	2,023	775	268	342	209	152	4,834
Rapid City	630	2,046	723	1,158	356	211	202	5,326

Taxes based on a \$150,000 assessed single family house